Deloitte & Touche

Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS

December 31, 1999

Deloitte Touche Tohmatsu

100-05066/

Deloitte & Touche

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AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Telecommunications as at December 31, 1999, and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1999, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 21, 2000

Deloitte Touche Tohmatsu

SASKATCHEWAN TELECOMMUNICATIONS

STATEMENT OF OPERATIONS

For the year ended December 31 (Thousands of dollars)	**1999**	1998
Operating revenues		
Local service	**$ 322,524**	$ 306,433
Long distance service	**243,953**	276,612
Other	**46,677**	43,054
	613,154	626,099
Operating expenses		
Operating expenses	**413,384**	407,321
Depreciation and amortization	**130,127**	124,081
Restructuring and other charges (Note 3)	**21,651**	-
	565,162	531,402
Income from operations	**47,992**	94,697
Other income	**2,330**	9,907
Interest and related costs (Note 4)	**31,786**	33,179
Net income	**$ 18,536**	$ 71,425

STATEMENT OF RETAINED EARNINGS

For the year ended December 31 (Thousands of dollars)	**1999**	1998
Retained earnings, beginning of year	**$ 275,212**	$ 243,071
Net income	**18,536**	71,425
	293,748	314,496
Dividends	**10,195**	39,284
Retained earnings, end of year	**$ 283,553**	$ 275,212

See Accompanying Notes

STATEMENT OF FINANCIAL POSITION

As at December 31 (Thousands of dollars)	**1999**	1998
Assets		
Current assets		
Accounts receivable	**$ 78,561**	$ 89,769
Inventories	**6,775**	6,475
Prepayments	**8,028**	11,454
	93,364	107,698
Property, plant and equipment (Note 5)	**813,404**	812,069
Other assets (Note 6)	**74,452**	72,717
	$ 981,220	$ 992,484
Liabilities and Province's Equity		
Current liabilities		
Bank overdraft	**$ 17,888**	$ 15,723
Accounts payable	**84,207**	89,482
Accrued interest	**4,015**	3,489
Dividend payable	**-**	39,284
Service billed in advance	**13,992**	14,826
Current portion of long-term debt (Note 9)	**5,034**	38,198
	125,136	201,002
Long-term debt		
Province of Saskatchewan (Note 7)	**275,596**	254,842
Due to Saskatchewan Telecommunications Holding Corporation (Note 8)	**44,554**	6,370
Other	**2,381**	5,058
	322,531	266,270
Province of Saskatchewan's Equity		
Equity advance (Note 10)	**250,000**	250,000
Retained earnings	**283,553**	275,212
	533,553	525,212
	$ 981,220	$ 992,484

See Accompanying Notes

On behalf of the Board

Thomas V Kehoe

DE Ramsay

SASKATCHEWAN TELECOMMUNICATIONS
STATEMENT OF CASH FLOWS

For the year ended December 31
(Thousands of dollars)

	1999	1998 (Note 16)
Operating activities		
Net income before interest paid	**$ 52,617**	$ 102,749
Interest paid	**34,081**	31,324
Net income	**18,536**	71,425
Items not affecting cash from operations (Note 11)	**137,738**	103,619
Net change in non-cash working capital items	**(9,435)**	(1,985)
Cash provided by operating activities	**146,839**	173,059
Financing activities		
Saskatchewan Telecommunications Holding Corporation	**38,183**	(41,179)
Repayment of Province of Saskatchewan debt	**(38,255)**	(4,123)
Proceeds from long-term debt	**35,000**	-
Dividend payments	**(49,479)**	(6,338)
Cash used in financing activities	**(14,551)**	(51,640)
Investing activities		
Proceeds from sale of investment	**-**	14,460
Capital expenditures - net	**(134,453)**	(137,624)
Cash used in investing activities	**(134,453)**	(123,164)
Decrease in cash	**(2,165)**	(1,745)
Bank overdraft, beginning of year	**(15,723)**	(13,978)
Bank overdraft, end of year	**$ (17,888)**	$ (15,723)

See Accompanying Notes

Note 1 -- The Corporation

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, Internet, text and image products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of The Saskatchewan Telecommunications Act. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada.

In October 1998 the Federal Government granted the Corporation an exemption from federal regulation by the Canadian Radio-television and Telecommunications Commission (CRTC) until June 30, 2000. In 1999 the Corporation continued to proactively manage the transition and implement the changes required to align with national regulatory and competition models. Regulation by the CRTC may have an impact on the Corporation's future pricing, products, service development and financial performance.

By virtue of The Crown Corporations Act, 1993, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 -- Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry.

Property, plant and equipment
Property, plant and equipment is recorded at original cost including materials, services, and direct labour.

Depreciation is computed on the straight-line, equal-life group method using rates determined by a continuing program of engineering studies for each class of property in service.

When depreciable telecommunications property is retired, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation.

Revenues
Operating revenues from the sale of services are recognized when services are performed. Equipment sales are recognized at the point of sale.

Leases
Where the Corporation is the lessor, rental revenues from operating leases are recognized as service is rendered to customers. Revenues from sales-type lease transactions are recognized at the inception of the lease. The investment in sales-type leases represents the present value of future lease payments receivable. Finance income is recognized in a manner which produces a constant rate of return over the term of the lease contract.

Inventories
Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Pension costs
The cost of pension benefits earned by employees who are members of the Corporation's defined benefit plan is determined using the accrued benefit method prorated on service and is charged to expense as services are rendered. This cost reflects management's best estimate of the plan's expected investment yields, salary increases, mortality of members, terminations and the age at which members will retire.

This plan is actuarially valued at least every three years. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service lives of the employees who are members of the defined benefit plan.

Foreign currency translation
Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains and losses on long-term monetary items are included in other assets and amortized on a straight-line basis over the remaining life of the related assets and liabilities.

Financial instruments
The Corporation periodically uses financial instruments to manage its exposure to interest rate and foreign currency fluctuations. Use of these instruments is governed by a policy which specifies financial institutions with which the Corporation can deal, based on credit worthiness. Gains and losses from these transactions are reported as adjustments to interest and related costs.

Note 3 -- Restructuring and other charges

The Corporation recorded restructuring and other charges of $18.5 million and $3.1 million, respectively. The restructuring charges include bridging costs and retirement allowances borne by the Corporation pertaining to an early retirement program offered in 1999. Other charges include $3.1 million for non-recoverable costs to implement local service competition and provide local number portability.

Note 4 -- Interest and related costs

	1999	1998
	(Thousands of dollars)	
Interest expense	**$ 34,981**	$ 34,865
Amortization of unrealized net foreign currency losses	**473**	2,042
Amortization of debt discounts	**172**	220
	35,626	37,127
Less: Sinking fund earnings	**3,840**	3,948
	$ 31,786	$ 33,179

Note 5 -- Property, plant and equipment

	1999	1998
	(Thousands of dollars)	
Buildings, plant and equipment	**$ 1,873,057**	$ 1,862,092
Plant under construction	**110,728**	87,283
Materials and supplies	**10,615**	12,518
Land	**3,292**	3,184
	1,997,692	1,965,077
Less: Accumulated depreciation	**1,184,288**	1,153,008
	$ 813,404	$ 812,069

The composite depreciation rate on the average depreciable telecommunications property in service was 7.0% in 1999 (1998 – 6.7%).

As at December 31, 1999, the ratio of accumulated depreciation to depreciable telecommunications property was 63.2% (1998 – 61.9%).

Note 6 -- Other assets

	1999	1998
	(Thousands of dollars)	
Deferred pension costs	**$ 42,149**	$ 31,846
Unrealized net foreign currency losses on long-term debt	**22,008**	31,049
Competition implemention costs	**7,818**	8,158
Unamortized discount on long-term debt	**1,686**	1,478
Other	**791**	186
	$ 74,452	$ 72,717

Note 7 -- Long-term debt, Province of Saskatchewan

Years to Maturity	Average Fixed Interest Rate (%)	1999 (Thousands of dollars)	1998
Canadian dollar issues			
1 - 5 years	12.57	**$ 82,547(a)(b)**	$ 68,088
6 - 10 years	9.99	**66,974(b)**	81,433
29 years	5.00	**35,000(c)**	-
U.S. dollar issue			
21 years	9.38	**144,330(d)**	153,330
		328,851(e)	302,851
Less: Equity in sinking funds		**50,781(f)**	45,795
Due within one year		**2,474**	2,214
		$ 275,596	$ 254,842

(a) Long-term debt totaling $68,088,000 contains call provisions whereby the Corporation may call the debt on specific dates as outlined in the terms and conditions.

(b) Long-term debt totaling $81,433,000 is subject to redemption at the option of the holder on six months notice as outlined in the terms and conditions.

(c) Long-term debt totaling $35,000,000 contains a one-time redemption provision exercisable on March 5, 2006, whereby the investor may redeem the debt. The debenture pays interest at 5% to March 5, 2006 and 5.6% thereafter.

(d) Represents long-term debt repayable in U.S. dollars having a U.S. dollar face value of $100,000,000 converted to $115,360,000 Canadian at the time of issue. The recorded amount is based on the foreign exchange rate at December 31, 1999 of 1.4433 (1998 – 1.5333).

(e) The fair value of this long-term debt is $384,222,000 (1998 - $396,957,000). Fair value reflects the estimated amount that the Corporation would pay, at current interest rates, to redeem the debt at December 31.

(f) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the outstanding balance of long-term debt received. The sinking funds include investments having a U.S. dollar value of $12,229,658 recorded at $17,651,066 Canadian dollar equivalent. The fair value of the sinking funds is $50,800,000 (1998 - $51,607,000) determined as the market value of investments held in the sinking fund as at December 31.

Note 8 -- Due to Saskatchewan Telecommunications Holding Corporation

The balance consists of funds received from Holdco bearing an interest rate of the Province of Saskatchewan ninety-day borrowing rate with no fixed repayment terms. Accordingly, the debt has been classified as long-term.

Note 9 -- Current portion of long-term debt

Sinking fund installments and long-term debt repayments (net of sinking funds) due on outstanding debt over the next five years are as follows:

	(Thousands of dollars)
2000	$ 5,034
2001	$ 4,062
2002	$ 36,184
2003	$ 1,793
2004	$ 1,793

Note 10 -- Equity advance

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing has been provided in the form of an equity advance from Crown Investments Corporation of Saskatchewan.

Note 11 -- Items not affecting cash from operations

	1999	1998
	(Thousands of dollars)	
Depreciation and amortization	**$ 130,127**	$ 124,081
Restructuring and other	**21,651**	-
Pension income on defined benefit plan	**(10,303)**	(10,588)
Gain on sale of investment	**-**	(7,640)
Premium and foreign exchange adjustments	**1,052**	1,462
Other	**(4,789)**	(3,696)
	$ 137,738	$ 103,619

Note 12 -- Pension plans

The Corporation maintains two pension plans which provide retirement benefits for essentially all employees.

A defined contribution plan, the Public Employees Pension Plan, is maintained for employees hired subsequent to October 1, 1977. This plan's funding requirements are established under the Public Employees Pension Plan Act. The plan is funded by employer and employee contributions.

A defined benefit plan is maintained for those employees hired prior to October 1, 1977 and who did not elect to transfer to the defined contribution plan. The plan was established under the Superannuation (Supplementary Provisions) Act and the Saskatchewan Telecommunications Superannuation Act. The defined benefit plan provides for pensions at retirement which are based on eligible employees' years of service and their highest five years of earnings.

Effective January 1, 1999, the defined benefit plan was registered under The Pension Benefits Act, 1992. The plan will continue under the name of The Saskatchewan Telecommunications Pension Plan.

Details of the defined benefit plan are as follow:

	1999	1998
	(Thousands of dollars)	
Plan assets at market related value	**$ 770,151**	$ 713,705
Present value of accrued pension benefits	**620,033**	587,356
Surplus	**$ 150,118**	$ 126,349

	1999	1998
	(Thousands of dollars)	
Pension expense (income) for the year was as follows:		
Defined contribution plan	**$ 8,581**	$ 6,904
Defined benefit plan	**(10,303)**	(10,588)
	$ (1,722)	$ (3,684)

Note 13 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	1999	1998
	(Thousands of dollars)	
Operating revenues	**$ 74,088**	$ 72,290
Operating expenses	**44,262**	38,627
Accounts receivable	**7,590**	14,237
Accounts payable	**5,403**	11,844
Capital expenditures	**725**	450

In addition, the Corporation pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

Note 14 -- Commitments

The future minimum lease payments under the operating leases of the Corporation are as follows:

	(Thousands of dollars)
2000	$ 19,900
2001	$ 20,200
2002	$ 20,350
2003	$ 20,700
2004	$ 20,600

The above payments include $20.4 million for leases with related parties.

Note 15 -- Year 2000 Issue

The Year 2000 issue arises because many computer systems use two digits rather than four to identify a year. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Note 16 -- Comparatives

1998 figures have been reclassified to conform to the current year's presentation.